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CONCLUSIONS PAPER

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The Great Political Debate

***Barkha Dutt**, Award-winning Broadcast Journalist, Opinion Columnist and Author*

Politically, India is witnessing a notable shift in its national and regional dynamics. Under PM Modi's leadership, today's BJP differs markedly from its previous stint in power under Atal Behari Vajpayee. This reflects not only changes in India's broader political landscape but also an ongoing transformation within the BJP.

Ahead of the upcoming Lok Sabha elections, the Modi-Shah-led party looks poised to replace leaders, particularly at the state level, who were associated with the Vajpayee era. Whereas the RSS continues to provide strength in numbers, today's BJP is bigger than the RSS' cadres or ideology and is largely about the leader, drawing historical parallels with Indira Gandhi's era.

A tale of two parties

In his recently published diaries, former President Pranab Mukherjee – an astute politician and political observer – notes deep similarities between Mr Modi and Mrs Gandhi. Both are (or were) adept at understanding public sentiment and effectively strategising for it. He criticises the Nehru-Gandhi family's hegemony over the Congress as well as its tendency towards arrogance, made worse today by a lack of political astuteness. The Congress, he rightly notes, struggles on multiple fronts: a lack of national leadership; an unclear ideological stance regarding Hindutva; and organisational incoherence.

The BJP's ascendancy contrasts with the Congress's prolonged decline, which in turn is attributed to Mr Modi's strong persona, focus on Hindutva and nationalism and the government's welfare initiatives. Together, these constitute what may be termed 'Moditva': a fusion of personality, organisation, ideology and welfarism. Whereas the BJP has mastered the art of storytelling, the Congress severely lags behind on this score. Most people now associate any win, big or small, for the country to the Prime Minister. Some may disagree with such a narrative or are uncomfortable with this over-centralising of power, but the masses see it differently.

An absence of accountability for performance has been a longstanding issue for the present leadership of the Congress, and as the recent Assembly elections indicate, the BJP appears to be comfortably headed for victory in 2024. Undecided voters often play a crucial role in elections, but owing to the opposition's failure to spin a compelling/coherent *alternative* narrative, this pivotal group will lean toward the BJP.

The Congress party has to grapple with countering Hindutva while redefining its leadership, campaign representation, organisational structure and core principles. It continues to repeat futile slogans, makes personal attacks on the PM and engages in esoteric issues that are far removed from people's everyday lives. It has no real clarity on nationalism and Hindutva and has been unable to adequately differentiate itself from the BJP. This absence of a clear narrative hampers the Congress's prospects. Although its new President, Mallikarjun Kharge, has effectively managed factionalism within the Congress, it needs innovative and disruptive ideas to prepare for the 2029 elections. Meanwhile, the INDIA alliance, which was launched with great promise, seems to be fraying already.

The media in an age of polarisation

In the current, polarised landscape the media has also become polarised – evident in expectations that journalists *must* align with one side or the other. However, true journalistic integrity lies in the ability to leave the audience unsure about the journalist's own political stance. Today, confirmation bias tends to shape content consumption, leading viewers/readers to perceive any deviation from their opinion as 'bias'. This breeds an environment where a journalist can never 'win', no matter what they say.

Yet, despite repeat complaints about media bias, consumers' choices do not always reflect a preference for media that is aligned with their beliefs. Instead, people seek to reinforce their existing viewpoints and tend to reject content that challenges their own political stance. Consequently, there is little willingness to pay for news. Meanwhile, newspapers now rely heavily on government advertising; and most TV channels are owned by corporate entities. As a result, many turn to digital platforms, but even there, challenges arise due to changes in foreign funding and FDI rules, potentially stifling independent media endeavours. Moreover, in this era of instant gratification, professional journalism that is unbiased and independent is not always appreciated by the audience, which seeks both entertainment and validation of its own opinions. This reveals shortcomings not just within the media, but also among its consumers.

Geopolitics in a Year of Elections: Disruption Ahead

***Pramit Pal Chaudhuri**, Head of India Practice, Eurasia Group*

Globally, there has been a surge in violent conflict in recent years. According to data from Sweden's Uppsala Institute, 2023 stands out as the most violent in recent history, surpassing post-World War II records. Conflicts have erupted worldwide, notably in regions such as Yemen, Ethiopia, Sudan, Myanmar, Russia-Ukraine and recently between Israel and Hamas.

A more reticent America…

This surge in violence aligns with a US retreat from global commitments, which has historically been a stabilising force that helped contain the spread of local conflicts. America's shift away from global policing is evident in its internal political discourse. Even situations that *directly* affect American interests, such as the Russia-Ukraine war, have become a partisan matter. (Its diminishing patience with the Ukraine issue, and tricky domestic politics, mean that a resolution to the conflict may come sooner rather than later.) This change has empowered middle powers to act with impunity, expanding their influence through actions that were previously unimaginable. Examples include Russia's invasion and Turkey's pursuit of a Neo-Ottoman empire, which has disrupted its relations with neighbouring countries.

Amidst this global unrest, countries like the UAE and Singapore are striving to reconstruct a segment of the liberal international order in their own regions. The UAE is seeking a strategic partnership with India, focusing on regional stability and economic integration. In Southeast Asia, ASEAN faces internal disintegration with its members choosing sides between the US and China. Equally, Western sanctions have pushed Russia closer to China – despite China's well-earned reputation for being highly demanding in its relationships. (For its part, China is grappling with these changing geopolitical realities and economic difficulties.)

…and India's shifting diplomacy

India's diplomatic stance under PM Modi acknowledges an evolving global landscape. Initially, Mr Modi prioritised improved relations with China but – seeing that China was an unreliable partner – quickly shifted to aligning more closely with the US. This, however, risked provoking an adverse reaction from China, given its potential to inflict economic damage. The formation of the Quad is an attempt to counter China's dominance but primarily focuses on technology.

India's relations with its neighbours will come into sharp focus in the coming months. Bangladesh is gearing up for polls in February and its current leader, Sheikh Hasina, will remain close to India if, as expected, she returns to power. Meanwhile, in Sri Lanka, all of the major political parties have tilted towards India following an economic downturn that resulted from failed Chinese investments. (Presently, Sri Lanka is in debt negotiations with the IMF and other multilateral agencies, with China refusing to take a haircut on its loans.)

In contrast, the Maldives is likely to push through with a planned withdrawal of Indian troops from the country following the election of a pro-Chinese government. Despite this, India holds considerable economic leverage over the Maldives in the form of significant loans. Negotiations are underway to balance these interests, potentially involving India withdrawing some soldiers in exchange for an understanding that protects its strategic interests, particularly in naval surveillance capabilities. Meanwhile, Pakistan faces deepening isolation, given a deteriorating relationship with both China and the US. At the same time, Afghanistan is emerging as a new source of worry for Pakistan, with the Taliban launching attacks along the frontier provinces while improving its ties with India.

With the end of 'the era of superpowers', countries like India, Brazil and Indonesia will hold greater sway in global affairs – though they are yet to fully harness this potential. India is currently playing a cautious yet strategic part in diplomatic engagements. Under the leadership of External Affairs Minister S Jaishankar, it has deftly balanced assertiveness and humility in its dealings with other nations. It is also playing a lead role within the Global South, giving voice to the dissatisfaction of countries that have felt abandoned by the West during global crises.

Here, India aims to offer viable solutions that align with its principles of reliability and partnership. In a broader context, India's nuanced positioning fits into a global system divided by technological dependencies and the resurgence of Cold War-like battles for influence. Efforts are underway to create new trust structures amidst the diminishing relevance of multilateral agencies and treaties.

20 million jobs a year: What will it Take to Get There?

***Sridhar Krishna**, Senior Scholar, The Takshashila Institution*

India is grappling with a pressing unemployment challenge, the result of a yawning gap between job demand and opportunities. With its vast young population, the need to create 20 million jobs annually is crucial, but currently, only 3 million jobs are being generated each year.

Moreover, India's labour force participation rate (LFPF) is lower than the global average and gig employment dominates, creating job insecurity. A shortage of skilled workers, particularly in the formal sector, poses another huge obstacle, with the ILO projecting a shortfall of 29 million jobs in the next decade. Despite working more hours, Indian workers earn much less than their global counterparts, which reemphasises the urgency of addressing these job-related challenges.

Building new cities is a potent strategy for job creation and career advancement. As the experience of cities like Jamshedpur and Gurgaon demonstrates, relocating business hubs or capital cities can drive internal migration and job creation. Another effective approach, as in places like Sonipat and Manipal, is to establish new educational institutions, which helps attract young people seeking opportunities. Spending on infrastructure in tier 2, 3 and 4 cities also helps foster growth by turning them into commercial hubs.

Enhancing credit to MSMEs is another effective strategy. A Bain report indicates that only 50% of the financing requirements of entrepreneurs are currently being met. Closing this gap, especially for women entrepreneurs, is crucial. Similar initiatives in Bangladesh have led to increased female employment in MSME textile manufacturing, showcasing the potential for higher workforce participation through similar measures.

Tapping into the potential for youth emigration – and services exports. Unlike Japan and the EU, India boasts a youthful population. However, a key concern is whether its workforce possesses the skills needed to fulfil global job demands. Despite services accounting for ~65% of global GDP, only 21% of all trade involves services. With advancements in digitalisation, India can boost its services exports, something the government must actively promote.

Financing for upskilling. Skill mismatches are a significant issue in India and there is a severe shortage of qualified applicants for the available jobs. By 2030, an estimated 29 million jobs will remain unfilled due to a lack of skills. Challenges to upskilling include limited awareness about what and where to learn, financial constraints preventing training affordability and difficulties with taking time off from (currently) low-paying jobs. Borrowing money for training is also a hurdle, and uncertainties about post-training employment add to the complexity.

The Takshashila Foundation has introduced the novel concept of 'at-risk loans' for upskilling, where the skill-seeker incurs no upfront training costs and may even receive a stipend during training. The total amount (stipend plus training costs) is treated as a loan, which is managed by the training institute through a bank. Trainees repay a portion of their increased income post-training, with no obligation to repay if their income does not rise.

An SPV is created to pool the loans and a structured bond with multiple tranches is issued. Investors receive interest and principal repayments based on the coupon rate, which is determined by their risk appetite. (Higher risk corresponds to a higher coupon rate.) Career impact bonds can yield several positive outcomes:

- Individuals can pursue skill development without repayment concerns if they fail to secure a job after training.
- Effective training institutes focusing on market-relevant skills for the right trainees will succeed, while others may struggle.
- Philanthropists and the government will see a direct impact on their investments in reskilling programmes, allowing market forces to guide funds to effective training initiatives.
- Investors gain access to a promising new investment option.

At-risk loans lack a guarantor or collateral, making it challenging to monitor the income of the loan beneficiary and safeguard against defaults. To manage risk, funds can be deposited into specially-created Jan Dhan accounts. Using Aadhar numbers, data analytics can be employed to track individuals, their job placements and the effectiveness of the training.

Asset Allocation and Portfolio Rebalancing: Big Themes to Focus in a Volatile Market

***Jyotsna Singh**, Business Head, Kotak Private Bank*

CEOs are often unable to make the time to carefully review, let alone rebalance, their investment portfolios. Equally, with markets scaling new highs each day, it is easy to get carried away and make rash decisions that can prove costly in the long term. Following a few simple best practices can help avoid such mistakes and generate robust and relatively stable returns.

Recent trends in portfolio allocation

Historically in India, most investors have gravitated – either by default or by design – towards physical assets such as real estate and gold over financial assets. However, a marked shift is underway, with the share of physical assets dropping from 72% in 2014 to 65% this year. This is driven by factors such as rising awareness (including via social media) about the benefits of holding financial assets; digitalisation in the financial sector; better regulation and improved market efficiency; rising disposable income; and easier access to research tools.

Since Covid hit, there has been a reversal of trend, with money flowing back into residential property in particular. However, poor liquidity remains an issue and thus, there is growing demand for 'smarter' financial products across segments:

- **Debt:** Fixed-income instruments are believed to offer a low-risk/low-reward mix, but returns from such assets can vary from 6-6.5% for bank deposits to 16-20% for venture debt and real-estate funds. Recent innovations like equity savings schemes offer 7-8% returns with the added benefit of lower taxation.
- **Equity:** Investors face several questions when it comes to equity investing – whether to buy passive (including index) or active funds; growth or value stocks; whether to pursue a dividend growth strategy; or whether to engage in contrarian investing.
- **Alternate assets:** These have gained traction in India in recent years. The pros of investing in such assets include low correlation with other asset classes and potentially higher returns.

The cons include poor liquidity, longer investment horizons, higher minimum investment amounts and (often) limited performance indicators.

Best practices in investing

It is generally true that equities deliver higher average returns but are more volatile than other assets; that fixed income offers stability; and that gold is a hedge against inflation. A mix of 30% equity and 70% debt would, in the last few years, have generated an average return of 8.7% with a volatility of 3.3% whereas an 80:20 mix would have generated 10.5% with a volatility of 5.2%. Yet, most people find it hard to stick to a chosen asset allocation strategy. Evidence shows that a disciplined approach to investing is the single biggest driver of longer-term risk and returns. It is the cornerstone of investing, and in fact, ~90% of all variations in returns originate here.

Regular portfolio rebalancing is vital, particularly in times of volatility, when different asset classes behave very differently. (Going forward, investors will need to brace for unexpected events – the 'unknown unknowns' – a few times a year, and geopolitics will continue to play an outsized role.) Data proves that strategic rebalancing can, in the long term, generate excess annualised returns of nearly 1 percentage point over a 'no action' strategy. This may seem like a small difference but given the power of compounding, it quickly adds up. A good general rule is to review the portfolio once a quarter and make rebalancing decisions while accounting for costs such as taxes and redemption fees.

With equity investments, returns rise and risks decrease with the time horizon. For instance, someone who has stayed put for the last 5 years would have earned a return of between (-) 1.5% and 47.2%, but stretching this horizon to 10 years would narrow the range to between 5.9% and 22.4%, with a near-zero likelihood of negative returns. Similarly, the difference in current portfolio value between someone adopting a buy-and-hold strategy since January 1, 2018 – thereby riding the wave of the ten best days for the market in this period – and someone who invests sporadically (and therefore misses out on those 10 days) is as high as 58%.

A few other rules of hand are important to keep in mind:

- Rather than taking an either/or approach to passive versus active investing, it is better to opt for an 'and' strategy. Index funds are a good option for large-cap investments but with small and mid-caps, active investing such as through fund managers who do bottom-up analysis, can pay off.
- Geographical diversification is vital: While the Indian markets have outperformed global markets in 6 of the last 10 years, they are also historically more volatile. India is also a small part of the global economy and the rupee has consistently depreciated against the dollar. Buying foreign assets provides access to unique businesses and reduces forex risk.
- Keep things simple – don't seek complexity for complexity's sake.

Strategising for a USD 4 trillion Consumer Market

***Damodar Mall**, Grocery Retail – Reliance Retail*

With its access to a vast, anonymised pool of hard data, Reliance Retail has a unique view into what – and how – the *real* Indian middle-class family consumes. 95% of its sales are linked to unique phone numbers, which enables it to map consumption patterns down to the neighbourhood level. The data paints a vivid picture of an evolving and fast-growing market.

An emerging and assertive consumer…

Whether in terms of food, fashion or entertainment, India is *modernising* but only gently *westernising*. Discretionary spending is at an inflexion point, but this does not mean that consumption will mirror what happened, say, in China. For Indian consumers, family, culture and community are important sources of validation as well as markers of well-being. Thus, they will not give up on *pani puri* as they start to consume organic food; rather, they will move up the value chain from roadside to premium/packaged *pani puri*. This also means that the influence of brands is weaker than in other markets. Rather than a luxury bag, an Indian woman may buy gold jewellery, for both its investment value and the cultural validation it brings. She may buy a Cartier watch without a strap and get a hand-made (traditional) gold bracelet attached to it. This confidence in one's culture shows up in how Indians consume leisure and travel, and how they celebrate festivals.

…powered by digital

India has the world's largest digitally literate population as well as the highest rates of data consumption. In its truest sense, data is being democratised, but at the same time, data is solving for many of the real-world frictions found in India – a virtual 'flyover' for goods, services and money to travel on. However, digital shopping in India is unlikely to follow the China model. While everyone has learned to consume content and make payments on their phones, most people remain hesitant to shop online.

India has 850 million internet users and 185 million online shoppers but only ~45 million 'mature' (i.e. frequent) digital shoppers. ~70% of smartphone users have bought *nothing* on their phones in the last 6 months. At heart, this is because India is not a do-it-yourself (DIY) but a 'do-it-for-me' country, where people are accustomed to being served rather than serving themselves. Rail ticketing was computerised a generation ago, but most people still buy tickets from an agent. At Reliance's 'self-check-out' counters, the vast majority still ask for help and hand their credit cards to a cashier. Instead of buying groceries on an e-Commerce site, many will send WhatsApp messages to their local shopkeeper. All of this goes to suggest that what India will see is an 'assisted e-Commerce boom' that will eventually bring in the digital non-natives.

Triggers for consumption

Indian consumers differ, too, in the sort of *triggers* to which they respond. At one level, they are used to having fresh-cooked meals every day. Instead of paying for ready meals, they would rather hire a home cook; instead of *replacements* for a home-cooked meal, they would prefer to buy *embellishments* for it. India is also a space for 'negotiated tradition', with a high level of cross-fertilisation of cuisines and festivals. 'Indian Chinese' food is hugely popular, while in Eastern India, South Indian food is catching on for its novelty value. Finally, with a major festival taking place virtually every month, festivals are seen as a cultural license to consume.

Some emerging trends in consumption:

- Asserting consumer + Large numbers: Simultaneously, India is seeing a 'mild premiumisation' at the middle-income levels and a 'full premiumisation' in the upper-income bands. The first set may be moving up from buying loose tea to buying packaged tea, while the other is jumping from bananas to strawberries. Tellingly, Reliance now sells more packets of 500gm/1kg dry fruits than it does of 5/10kg *atta* (whole wheat).
- A swelling base of consumers: India has an estimated 140 million people with incomes of over USD 17,740 (2.5x the average Indian per-capita income) in purchasing-power-parity (PPP) terms. This means that the base of 'supermarket shoppers' in India *alone* is bigger than the *total* market size of Malaysia and Thailand combined.

- Aspirations are getting democratised: Strikingly, there is no longer any difference between small-town India and metro cities in the consumption pattern of items such as green tea, fabric conditioners and digestive biscuits. There may be fewer *people* in smaller towns and therefore lower *demand density*. However, the setting-up of stores in such areas quickly creates an 'aspiration magnet' for those living in neighbouring areas.
- Capacity to spend > Habit of spending: For most Indians, 'middle-class well-being' is a recent phenomenon, and their spending habits continue to lag. Customers tend to hesitate to spend at each step of the upgrade cycle, However, when the customer's guard is down, he or she is likely to buy more discretionary products – especially those considered 'essential' in some way. The key is to tempt the customer away from a pre-decided shopping list early in the shopping journey, such as through:
  - Rs 49/Rs 99/buy-one-get-one-free offers
  - Designing stores around upsizing and up-trading
  - Democratising micro-aspirational products such as small appliances
  - Using superstores as a testing ground for new products and category creation
  - Packaging/modernising traditional products such as mithai
  - Upselling high-margin products such as fruits and vegetables, where pricing is not constrained by MRP rules

AI: Reshaping Business Models

***Kalpana B**, CEO and Chief Thinker, Grant Thornton dGTL*

Artificial intelligence (AI) is ushering in a new generation of information systems. AI's primary components are machine learning (ML), natural language processing (NLP), computer vision, deep learning and robotics. By building contextual understanding and knowledge, AI systems can enable hugely significant business outcomes, including in terms of strategic innovation, customer engagement and business transformation.

It is estimated that the global AI market will grow at a 37% CAGR over 2023-30, contributing over USD 15 trillion to GDP by 2030. Already, AI is capable of yielding fairly large productivity gains.

AI applicability: A WINS framework

The extent to which a business will be impacted by (or can leverage) AI depends on the degree to which it uses/depends on words, images, numbers and sounds (WINS). Mapping the *level of digitisation* today of WINS-related work in that industry against the *percentage of the total cost base* that goes into such work, it is possible to put various sectors into a 2x2 grid. In the lower left-hand quadrant are industries such as landscaping, dry cleaning and facilities management, where both the amount of WINS-related work and its cost are relatively low. These industries are unlikely to see much impact from AI. At the other end of the scale, the entertainment, software, professional services, financial services and education sectors will see their businesses completely transformed by AI in the next 3-5 years. Next-in-line sectors include physical therapy, addiction services and real estate. Businesses operating in agriculture, logistics, retail, oil and gas, and pharmaceuticals and healthcare will also see an impact, though perhaps further down the line.

Across industries, AI's key application areas include:

- **Decision-making**, such as in medical diagnosis, autonomous vehicles and claims processing. Companies such as Astra Zeneca are using the technology to conduct clinical trials, reducing time to market and thus creating a competitive advantage
- **Productivity enhancement** such as through the use of digital twins and by enabling daily productivity and ultra-personalisation
- **Big-data-led computation and learning** – such as predictive maintenance, production planning and multi-channel integration

Regardless of how it is deployed, as recent experience shows, it is important to ensure the ethical design and usage of AI systems. Today, generative AI developers scrape data off the internet to train their models. 10 years from now, however, much of the data that goes into such models may not be freely available. Who is getting trained on the data then becomes an important question.

AI's impact on the Indian market

In strategising around AI, businesses can play either offense or defence. A defensive play would involve protecting the company's position to retain a competitive advantage. This may involve, for instance, deploying service chatbots, language translation or AI-assisted processing tools. An offence-centred play would mean changing the busing model to consolidate market presence and standing using AI. This could include lead generation, targeted marketing or entering new markets.

Talent strategy models

Broadly, when it comes to the question of AI talent, companies can follow one (or a mix of) the following approaches:

- **Build** in-house talent such as through finishing schools and other internal capability-building
- **Borrow** for short-term project needs, leveraging ecosystem partnerships, freelancers, contractors etc
- **Bridge** gaps by increasing one's breadth of competencies and re-skilling existing employees to retain an organisational context
- **Buy** skilled lateral hires from the external market

Time to ACT

Creating an AI-ready organisation requires a combination of Ambition (vision and mission, targets, opportunity evaluation), Collaboration (assessing data readiness, identifying use cases and building community learning) and Transformation (sustainable models, monitoring systems). Most companies will have a good 5 years to transform, but they act now or risk obliteration.

When They Rise Far and Beyond the Call of Duty

Col Sonam Wangchuk, *Retired Colonel, Maha Vir Chakra*

Colonel Sonam Wangchuk, winner of the Maha Vir Chakra for his gallantry, spoke about the lessons he learnt from his high-stakes operation for the Indian Army. In 1999, Colonel Wangchuk successfully led an operation against Pakistani troops on the Chorbat La Top and laid the groundwork for several other battles in the Kargil War.

A Major at the time, he led a column of the Indus Wing, Ladakh Scouts to occupy a ridge line on the Line of Control (LOC) at a height of over 5,000 meters. Despite being ambushed by the enemy and losing one of his men, Colonel Wangchuck was able to keep his group together and launch a spontaneous counter-ambush. Throughout his military career, he demonstrated exceptional leadership, and his session highlighted certain, crucial factors that made success possible against all odds.

Faith and trust

Before embarking on their mission, the colonel and his men went to receive the blessings of the Dalai Lama. His warmth and good wishes did wonders to uplift the group's diminished morale. An important aspect of serving in the armed forces is relying on camaraderie and trusting your fellow soldiers with your life. Spiritual faith and trust in each other made the group feel ready to take on the daunting task of going into battle without paralysing fear for their lives.

Physical fitness

High-altitude regions are difficult to trek through, let alone fight in. It takes enormous physical strength and fitness to carry heavy ammunition and rocket launchers on one's back. However, by focusing on their fitness, Colonel Wangchuk's soldiers were able to traverse a difficult landscape quickly, without suffering either altitude sickness or exhaustion.

Decisiveness

Ambushed by the enemy and seeing an accompanying NCO get shot, Colonel Wangchuk had to make the tough call about whether to proceed ahead and risk getting shot or to help the injured soldier but endanger the rest of the group. It perhaps goes without saying that, countless times in the field, the Colonel had to make challenging decisions on the spur of the moment. Had he lacked decisiveness, events may have unfolded very differently for him, and his team.

Adaptability

In the face of orders to remain at a post they had secured, as the commanding officer on the ground, Colonel Wangchuk had to make the difficult decision to defy the order and move higher up for better visibility of the enemy. Seeing the actual conditions at play, identifying opportunities and quickly making a call made a huge difference to the outcome of the operation. The improved visibility, in particular, helped take out several enemy soldiers. Applying this to a corporate setting, the ability to modify plans to fit a particular situation is the kind of adaptability leaders need to display.

Patience

In combat as in business, few qualities are more critically important than patience. On two occasions during a pitched battle during the Kargil War, Colonel Wangchuk observed the enemy running out of ammunition and being forced to travel downhill to obtain fresh supplies. Its indiscriminate firing had led to many bullets being wasted. In contrast, the Indian Army observed patience and self-control, not wasting a single bullet. The Colonel's team bided its time through the shelling and was rewarded when the enemy ran short of supplies, exposing themselves to counter-attack.

Courage, teamwork and selflessness

At the time his group was ambushed and a fellow NCO shot, the Colonel did not have access to a radio unit. He needed a volunteer to climb down the trail and warn another group of soldiers. Despite the obvious threat to his life, a young officer bravely volunteered, running through a shower of bullets. He reached the other group and advised them to take an alternative route – which eventually allowed for the enemy to be encircled. Equally, the willingness of the NCO to surrender his life for his group was a display of courage and selflessness.

Election Update: The Emerging Policy Scenario Post-Election

***Raghavan Jagannathan**, Editorial Director, Swarajya magazine*

Crystal-ball gazing to the 2024 elections, it is increasingly likely – especially given the recent Assembly election results – that the BJP will return to power at the Centre. Political continuity is thus all but assured until 2029, which makes it important to take stock of the policy implications.

Forecasting the spoils of 2024

The BJP is almost certain to cross the 272-seat mark and will probably end up in the region of 308 seats. In 'high seat yield states' like UP, MP, Rajasthan, Gujarat etc – where it won 75-100% of all seats last time – it secured a total of 214 of 239 seats in 2019 and should comfortably get to 207 this time. In 'medium-to-high-yield' states like Maharashtra, Bihar and Assam, where it won 89/109, it will get 59 or more. In 'moderate yield' regions (West Bengal, Odisha etc), it won 34/88 but should get to at least 32. Finally, in low-yield states like Kerala, Punjab and AP, it will probably get 10 out of 114, compared to 9 last time. The two states to watch closely, however, are Maharashtra and Bihar, where the electoral dynamics could change between now and the polls.

A rudderless opposition

Regrettably, the opposition parties lack a narrative beyond the short-term aim of 'getting rid of Modi.' They focus excessively on issues such as subsidies and conducting a caste census – an idea that has little traction outside of Bihar and Maharashtra. The heavy tilt towards subsidies could prove economically ruinous in the unlikely event that the INDIA alliance comes to power. The alliance is built around arithmetic rather than chemistry. While it may hold together, conflicts are likely over seat-sharing in states like Delhi, Punjab, AP, Telangana and West Bengal. Additionally, several regional parties, such as the BRS, YSR Congress, BJD, MIM and AIADMK are likely to stay away.

The BJP's agenda for 2024 and beyond

Increasingly, the BJP has become a party of the 'extreme centre' – centrist on economic policy in general (and socio-capitalist on the macro front); centre-left on welfare; and centre-right on culture and identity. Should it win handsomely, its macroeconomic policies are likely to become even more conservative. At the same time, it will focus on growth and the gradual expansion of the welfare state. In fact, by 2029, India will probably have the most extensive safety-net of any country of comparable per-capita income levels. Large-scale privatisation is unlikely, given that Mr Modi prefers to make the public sector more efficient than to sell off public assets. The Ayodhya Temple is likely to yield rich electoral dividends but beyond that, Hindutva will remain a calling card for the party. The Kashi and Mathura temple issues will come up next, though it is unlikely that the BJP will resort to excessive polarisation. India's global profile will continue to strengthen.

An economic outlook

On current trends, India's GDP will touch USD 5 trillion by 2028-29 and USD 10 trillion by 2033-35. It will maintain growth in the 5.5-7.5% range, with inflation contained at 4-5% and the current account deficit at 2-2.5%. Provided there are no major shocks, the fiscal deficit should fall to 4-4.5%, if not lower, by 2029. Yet, while incomes will continue to rise, 'wage polarisation' will intensify further. With automation and digitalisation, the middle rung of workers is getting hollowed, especially in sectors such as banking, which have rapidly digitised. Balancing this out, to a degree, will be a likely move towards some type of universal basic income (UBI) scheme and an expanding social safety net.

Nehru and Modi – a conflict of visions

Mr Modi's vision for India is very different from the Nehruvian lens through which parties like the Congress view the country. Whereas Mr Nehru's was an outside-in, westernised perspective, Mr Modi's is an inside-out one. 'Bharat', in Mr Nehru's view, was just another name for 'India,' but for Mr Modi, it captures the nation's very essence and is therefore its 'true' name. While one wanted to westernise and modernise India, the other wants the world to accept India on its own terms. Compared to the old realities of the Cold War and decolonisation, Mr Modi's vision is built around today's rising nationalism and multi-polarity.

Whereas socialism was the dominant idea of the mid-20th century, today's reality is mixed economies and socio-capitalism. Finally, the weak India of the 1950s and 1960s needed the non-aligned movement to insulate itself, but today's stronger India can think of strategic, issue-based multiple alignments.

The BJP's post-May-2024 challenges

Assuming that the BJP returns to power, it will have to manage several critical, emerging challenges. The first and most serious is the delimitation exercise due in 2026. Were it purely based on population, states like UP, Bihar, MP and Rajasthan would gain from the exercise while the Southern states would lose out. However, the likely final result will be a political deal where the North's share of seats rises by *less* – and the South's by *more* – than it otherwise would have. On a related note, implementing the women's reservation bill will be tricky, though sensibly, the BJP has chosen to link this with delimitation. A third key challenge will be tackling the recent move by opposition parties to revert to the old pension scheme, which has the potential to bankrupt most states in the 2030s.

Fourth, the perceived North-South divide will have to be bridged, though thankfully, this 'divide' is more political than real. The key will be to manage the division of tax resources across states, and the upcoming 16th Finance Commission will need to ensure that richer states get their fair share of tax revenues. Encouragingly, the 'Bimaru' states have started to catch up in terms of per-capita income, with Western UP becoming a start-up hub and Eastern UP a rising hub for tourism. Finally, the BJP will need to manage economic challenges such as job creation (through apprenticeship schemes and the like); the revival of manufacturing (including through reforms and PLI-like schemes); judicial and bureaucratic reforms; agricultural reforms (which need to be led by the states); and decentralisation – which requires the empowering of state and local governments.

Lessons in Pioneering – Stories from the Tata Group

Harish Bhat, *Chairman, Tata Coffee and Brand Custodian, Tata Sons*

Established by Jamshedji Tata over 150 years ago, the Tata Group operates in 150 countries, boasting FY23 revenues of over USD 150 billion and a market capitalisation surpassing USD 300 billion. As one of the largest private employers globally, with over a million employees, it holds a significant position, second only to the Indian railways. With 900 million repeat customers and 20 million shareholders, the Tata brand has become a household name for every Indian.

Above all, Jamshedji Tata valued ethical business practices and believed that the company's wealth belonged to its shareholders and the broader community, which should always be the focal point of the Group's endeavours. He established the Western India Textile Mills, initially known as Empress Mills, as the first greenfield enterprise in Nagpur. This venture, leveraging top-quality cotton and advanced spinning-wheel technology, proved highly profitable, rewarding shareholders with a 50x return on investment. In the 1880s, he introduced accident insurance for female workers – the first such instance in India – followed by a gratuity pension scheme in the 1890s. In 1901, he implemented a provident fund at Empress Mill, making it a model for industry's role in employee welfare and community development. As early as the 1920s, Empress Mill provided such 'modern' amenities as a daycare centre for children, a gymnasium, pictograph halls and skill development classes, along with a girls' school.

Through their wills, Jamshedji Tata and his sons transferred a significant portion of their wealth to charitable trusts. At the time of their passing, 66% of all shareholding was allocated to Tata Trust, a structure that endures to this day. Consequently, two-thirds of the Group's current profits and dividends belong to Tata Trust, supporting the creation of institutions, hospitals and knowledge centres.

Guided by the foresight of Tata's leaders, the Group consistently invests in sectors where they can make meaningful societal contributions. This approach has fostered a lasting sense of ownership within the Tata Group, as various examples demonstrate:

- The **Taj Mahal Hotel**, India's first luxury hotel, was established partly to draw tourists back to Mumbai following the bubonic plague, which had prompted widespread migration.
- **Tata Steel**, a brainchild of Jamshedji Tata, originated in the belief that steel would play a crucial role in India's national development.
- Bothered by the emissions from Mumbai's coal-powered plants, Jamshedji Tata came up with the idea of harnessing hydropower during a casual riverside outing. This vision resulted in the creation of the Valvan and Lonavala dams, establishing the **hydroelectric plants** that continue to supply clean power to large parts of Mumbai.
- JRD Tata recognised the necessity of a robust civil aviation sector for India's continued progress. This spurred him to launch **Tata Airlines**, which was subsequently renamed **Air India** and acquired by the Indian government – before returning to the Tata fold in 2022.
- In the 1950s, recognising the vital role of transportation in trade, the Tata Group ventured into the commercial vehicle industry, resulting in the formation of **Tata Motors**.
- JRD Tata, together with FC Kohli, established TCS in 1968, firmly believing that computers were essential for society's progress.
- Until the 1980s, a significant share of India's population was iodine-deficient. The idea of making available iodine-enhanced salt is what drove the Tatas to enter the FMCG industry through **Tata Salt**, which now reaches 700 million customers.
- Established in 1996, **Tanishq** aimed to revolutionise India's jewellery-making industry. Recognising the huge value Indian households place on investing in high-quality gold, Tanishq installed carat metres in every outlet.

Countdown to Elections

***Rajat Sethi**, Political Analyst, IMA India*

Several factors, and a bit of luck, allowed the BJP to do better than expected in recent Assembly elections. Many feared that having Mr Modi lead from the front risked over-exposing him and denting 'brand Modi.' In retrospect, it *was* a risky move – but one that paid off. Had the BJP lost 2 or more of the 3 Hindi heartland states, there may have been some doubt about the outcome of the general elections.

Now, though, it appears to be a *fait accompli* – and Mr Modi's standing has only strengthened further. Conversely, for the Congress' regional satraps, who were given a free hand in running their campaigns, the entire onus of loss fell on them. More broadly, the INDIA bloc experimented this time with several ideas – including a big push on issues like subsidies – but none of them worked, and the opposition will now need to return to the drawing board.

Some general learnings can be drawn from these results, with implications for 2024:

- **Voter preferences can and will change** between national and state elections. The recent results will therefore have a larger bearing on the internal dynamics of parties than their Lok Sabha electoral prospects.
- **National elections can no longer be considered just a sum of state polls**. Instead, state polls provide the base on which parties can rebuild themselves.
- The **BJP's strategy of not declaring a Chief Ministerial candidate** in advance paid off.
- The **Congress' internal dynamics will shift** in the post Baghel/Gehlot/Kamal Nath era. The party is bereft of strong leadership at the national level.
- These polls also **provided a measure of the 'anti-incumbency index'.** Analysing the Telangana result – in particular, the threat posed to them by the Congress – regional parties within the INDIA bloc will turn more assertive.
- Ironically, for the BJP, **a resurgent Congress may throw up options** in terms of potential allies. A weak Congress, on the other hand, would comfort regional parties.

Understanding the results, state by state:

- **Mizoram** voted in the shadow of violence in Manipur. The incumbent Chief Minister's defeat was a shock. While the BJP had little to no prospect of winning this 99% Christian state, the Congress' plank of 'anti-communalism' was equally unsuccessful.
- **Chhattisgarh** was another shock result. No one expected Mr Baghel to lose, because no one had accounted for farmer distress and other local issues. For its part, the BJP had done no groundwork in the state for 5 years and was largely rudderless. It ran a plain-vanilla campaign, but one based on a micro-level understanding of issues such as the CG-PSC scam, youth unrest, law-and-order issues and delayed subsidy payments. In a state where 80% of farmers depend on rice subsidies, a small tweak to the subsidy payment system became a big mover. Only Amit Shah seemed to know what was happening on the ground.
- **Rajasthan** saw a tight fight to the end. The Gehlot government threw massive freebies at the electorate and the BJP was a broken house, yet the Congress was itself internally divided. In the end, the BJP's strategy of helicoptering in heavyweight Union Ministers and bypassing the local leadership seems to have paid off, though the cyclical nature of polling in the state also played a role.
- In **Madhya Pradesh**, the single biggest factor at play was CM Shivraj Singh Chauhan's *Laadli Behena* Scheme, which drew disproportionate support from women voters. In the lead-up to polls, Mr Chauhan hard-peddled women-focused schemes, including direct transfers, and reached out to tribal voters. His emotional bonding with the people also ran deep. Conversely, the INC's uninspiring leadership cost it dearly.
- **Telangana** was the only truly predictable result. It was plain that the BRS faced a huge anti-incumbency vote and was on its way out. The BJP initially seemed to be the major challenger but lost ground to the Congress, which kept gaining in momentum. It won, in part, by capitalising on rumours that the BRS and BJP were in cahoots.

What the INDIA bloc will focus on in 2024…

- Caste census: The Congress will continue to stoke caste issues – the true underbelly of Indian politics – hoping that it will yield results. Yet, it is unlikely to do so, except in a handful of states, such as Karnataka, Andhra Pradesh and Maharashtra.

- The North-South divide: This is another major fault-line and one that opposition parties will continue to play on.
- Secularism/liberalism
- Freebies
- Inflation, joblessness and the supposed 'K-shaped recovery'
- Liberalism

…and what the NDA will target

- Inverting the caste funnel: The BJP will attempt to blunt caste-related issues first, by taking on some of these issues directly; and second, by reframing the problem, such as by focusing on reservations-within-reservations to benefit those who have missed out so far.
- Women and tribals: India's 100 million tribal voters are often overlooked. The BJP believes that a strong outreach will swing the vote by 2-3%, enough to secure a win in many seats. At the same time, it is working to meet the aspirations of women, such as through cooking gas subsidies and the Women's Reservation Bill, whose appeal cuts across caste, community and religion.
- Building the nation's aspirations through its *'Amrit Kaal'* dreams.
- Subsidies: Seeing how it lost Karnataka on account of the Congress' lofty promises, the BJP is no longer shying away from offering freebies of its own.
- Foreign policy issues: The BJP has been good at leveraging foreign policy gains – such as the successful G20 Summit – for domestic political purposes.
- Issues such as the Uniform Civil Code, the Ram Temple and other 'civilisational' issues

Change is Everywhere

***Adit Jain**, Chairman and Editorial Director, IMA India*

Financial markets have surged in recent months and there is a sense of optimism, perhaps misplaced, that the world will avoid an economic downturn in the next 12-18 months. Inflation has tempered and many believe that the rate cycle has peaked. Yet, there are serious short-to-medium-term risks in the global environment that cannot be ignored. It is difficult to say when or in what form they may play out, but it is important to identify potential speed bumps and to prepare for them so that fallback strategies are in place well in time.

Winners and losers of the last 5 decades…

Taking the long view, it is clear that the Asia Pacific region has been the main 'winner' of the ongoing global realignment. Its share of world output has jumped from 14% to 33% in the last 50-odd years – the result of favourable consumer demographics, decent policies and export-driven manufacturing. China is now a USD 18 trillion economy and its share of output has jumped from 3% in 1970 to 18% today. Driving this were political stability, agricultural reforms (which enabled consistent, 7-8% rates of growth in the farm sector and allowed people to move off the land), cheap labour and capital and strong infrastructure spending.

Meanwhile, the ASEAN-6 countries have quadrupled their share of world output, to 4%, while South Korea has gone from 0.3% to 1.7%. (Japan, burdened by poor demographics and high debt, has gone in the other direction, from 6.2% to 4.2%.) The other big winner is America, whose GDP, from being roughly the same size as Europe's, is now 80% larger – USD 26 trillion, compared to USD 14 trillion. Powering it are innovation and immigration.

…and the next 5 years

In the coming 5 years, India is likely to sustain 6.5% growth and create new market opportunities (i.e., additional demand) worth USD 500 billion a year. China, growing at 4%, will create USD 1.8 trillion annually, America USD 1.3 trillion (@1.8%), the ASEAN-6 USD 300 billion (@4.9%) and the EU USD 500 billion (@1.5%).

Japan, growing at ~0.5%, is likely to add only a negligible amount in terms of new market creation. On net, over 2023-28, China will add USD 8.8 trillion, America USD 5.5 trillion and India USD 2.1 trillion to global market size.

The world around us

Geopolitical risks abound, with wars underway in Europe and the Middle East. Neither conflict will end quickly, and the Israel-Hamas war may spread, threatening the hard-won Abraham Accords and possibly pushing oil prices up as much as 70%, past USD 150/barrel. However, with America facing serious fiscal pressures, support for Ukraine will evaporate if a Republican wins the White House.

Meanwhile, Europe is seeing the rise of far-right leaders such as Georgia Meloni, Geert Wilders, Viktor Oban and Marine Le Pen; in Germany, support for the AfD has surged. Increasingly, populists are not just influencing but driving policy. In both Europe and the US, heightened nationalism and rising tariffs are largely a given – in America's case, regardless of whether Mr Biden or a Republican wins office next year.

The world economy has so far defied gravity. Despite a jump in interest rates, a much-anticipated recession has failed to materialise – and Q3 growth in America was a blistering 4.9%, annualised. Consumption has been robust, with Americans hoarding the cash handed out during the pandemic. Additionally, policy has pulled in opposite directions, with President Biden pumping as much as USD 3 trillion, taking the fiscal deficit up to 7.5%, even as the Fed tightens. (Eventually, *someone* – most probably the poorest of society – will have to pay the price for the largess.) Inflation, meanwhile, is falling and unemployment remains low.

The end of the 'sugar rush'

Looking ahead, this situation cannot last much longer. US consumers still have about USD 1 trillion of excess savings left over, though savings rates are at their lowest in 2 decades and the buffers are starting to wear thin. Moreover, fixed-rate mortgages – priced at ~1%, compared to current rates of ~8% for 30-year loans – have propped up sentiment, but the lock-ins will soon end and a much bigger share of disposable income will go to servicing debt. House prices may adjust by 24-25% by 2025 and 200 American banks could become insolvent even at current interest rates. Hopes of an AI-fuelled productivity boom have kept the markets afloat, but for how long?

Meanwhile, the Chinese economy is in deep trouble, primarily because of a property-market crisis. At the same time, Japan is no longer able to keep 10-year bond yields below 1%. With its public debt at 225% of GDP, rising rates will impact the government's ability to stimulate the economy. When yields were 0.8%, 8% of the budget went to interest payments. Were they to jump to 3%, this ratio would surge to 25% of the budget, leaving no money for anything else.

More broadly, global interest rates may have plateaued, but they are unlikely to ever go back down to 0-1% levels. In all likelihood, rates will stay higher, for longer, than many businesses and consumers would have factored in.

The financial system will take time to adjust to the end of the 'sugar rush.' There will be repercussions for global liquidity as well as capital flows into emerging markets. Large companies that have locked in debt at lower rates should be fine until 2025, but thereafter, high rates will start to bite. Tellingly, European corporate bankruptcies are already rising triggered by a 400 bps rise in borrowing rates. Start-up valuations, which had surged at 0% rates, have collapsed. Governments will also be forced to divert more tax revenues into servicing debt, impacting their ability to spend. Finally, as high mortgage rates hit home prices, it will erode personal wealth holdings, dent consumption and thereby set off a vicious cycle.

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